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Financing of Feeder Livestock in Ohio

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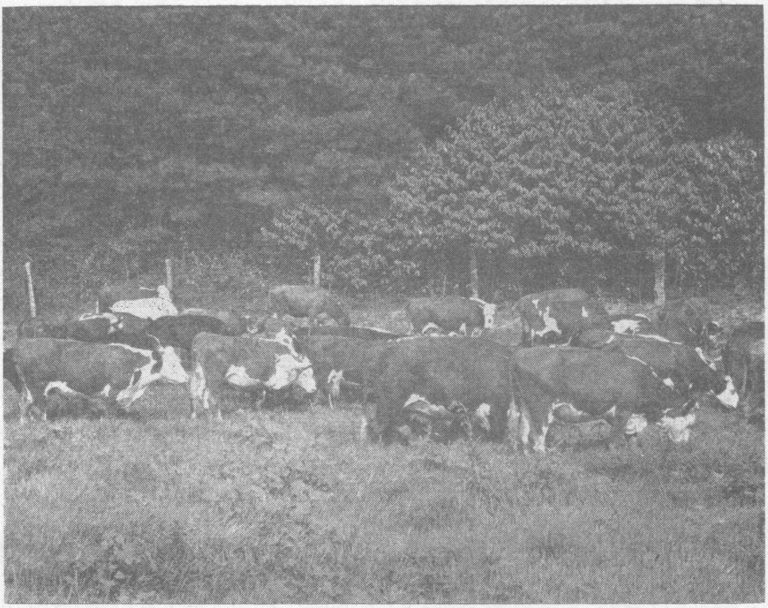

OHIO AGRICULTURAL EXPERIMENT STATION
WOOSTER, OHIO

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G. F. HENNING AND M. B. EVANS

INTRODUCTION

Ohio ranked twelfth in the number of cattle on feed, and fifth in the number of sheep and lambs on feed January 1, 1951, according to data furnished by the Bureau of Agricultural Economics, United States Department of Agriculture. The volume by years shown for the six years ending in 1951 is given in Table 1.

The cattle on feed January 1 in Ohio numbered 125,000 head for 1950 and 1951. This is just under 3 percent of the total for the United States, and they have remained at approximately that level for the past six years. Sheep and lambs for 1951 numbered 189,000 head and constituted 5.5 percent of the total for the United States, but have increased slightly from the 4.8 percent level in 1946. While Ohio does not feed numbers of cattle comparing with those fed in Iowa and Illinois, or sheep and lambs compared to Colorado, Kansas, and Nebraska, nevertheless, the above volume is very important and represents a sizable volume of business.

PURPOSE AND PROBLEM

At prices prevailing in 1950 and 1951, considerable financing was required to enable farmers to feed and finish livestock for market. For example, a farmer who desires to feed at the present time must be able to command or obtain finance to the extent of $100 to $140 per head for calves; from $125 to $200 per head or more depending on weight, grade, and price for heavier cattle, and $15 to $25 per head or more for lambs, in addition to the feed needed. A farmer who wants to feed 100 head of cattle can easily have invested from $10,000 to $20,000, depending upon the weight and quality of feeders while the farmer who feeds 500 lambs needs from $7,500 to $12,000 or more. With higher prices, livestock feeding is demanding more financing to enable such farmers to carry out their feeding program.

This report is concerned with some aspects of feeder financing, its characteristics, the institutions furnishing finance, and the adequacy of finance available to farmers needing the service.

TABLE 1.—Cattle and Calves, Sheep and Lambs on Feed January 1 of Each Year for Ohio and the United States

Year	Cattel and Calves			Sheep and Lambs		
	Ohio	United States	Ohio percent of total	Ohio	United States	Ohio percent of total
			%			%
1946	107,000	4,211,000	2.54	330,000	6,837,000	4.83
1947	120,000	4,307,000	2.78	297,000	5,693,000	5.22
1948	110,000	3,821,000	2.88	267,000	4,851,000	5.50
1949	120,000	4,530,000	2.65	265,000	4,003,000	6.62
1950	125,000	4,448,000	2.81	210,000	3,644,000	5.76
1951	125,000*	4,656,000*	2.68	189,000*	3,440,000*	5.49

*Preliminary—subject to revision.

Source: Bureau of Agricultural Economics, United States Department of Agriculture.

PROCEDURE

A group of farmers who feed livestock in four Ohio counties, Wood, Auglaize, Miami, and Union, were visited and interviewed during October and November of 1950 at their farms on the adequacy of feeder financing. These four counties were selected because they were considered typical of Ohio feeding from the standpoint of importance of feeding, location, size of operations, and differences of financing. This group of 143 farmers, all fed some livestock as shown in Table 2.

Table 2 shows that, of the 143 farmers interviewed, 113 fed steers, 22 fed heifers, 23 fed calves, 87 fed hogs, and 40 fed sheep and lambs. These farmers were well distributed over the four counties and were selected by county agents, marketing agencies, and credit institutions. The experiences and information of these men, it is believed, should give a good cross section of the borrowers attitude toward feeder livestock financing.

These feeders were both large and small as can be observed by the number fed during 1950. They included all sizes of feeding operations, although relatively few fed most of the livestock since they were the large feeders.

These feeders indicated the following agencies furnished feeder credit in their communities: Commercial Banks, Production Credit Associations, Producers Credit Corporation, friends, agencies selling feeder livestock, and other individuals.

TABLE 2.—Number of Livestock Fed by 143 Farmers in Four Ohio Counties During the Year 1950

Number of head	Steers		Heifers		Calves		Hogs		Sheep	
	No. of farmers	Total head	No. of farmers	Total head	No. of farmers	Total head	No. of farmers	Total head	No. of farmers	Total head
None	30	0	121	0	120	0	56	0	103	0
1—24	37	446	15	121	16	87	12	132	14	172
25—49	32	1,068	4	115	5	187	18	587	11	386
50—74	17	959	1	53	1	50	18	1,055	1	50
75—99	4	245	0	0	0	0	8	659	2	180
100 and over	23	4,481	2	240	1	100	31	5,855	12	4,848
Total	143	7,199	143	529	143	434	143	8,288	143	5,636

In addition to the group of farmers interviewed, the bank serving the areas were likewise contacted. In all, 15 banks in the Wood County area, 13 banks in Auglaize, 14 banks in Miami, and 10 banks in the Union County area were visited and data obtained on feeder financing. Each bank was asked detailed information on a few representative feeder loans.

Production Credit agencies serving the four county areas were studied and a sample of their loans was taken from each.

With the Producers Credit Corporation a sample was selected of every fifth loan alphabetically, since practically all of their loans are for livestock purposes.

From these combined sources a total of 301 feeder livestock loans were obtained amounting to slightly over $1,238,000. It is believed the analysis of these loans should give a fairly typical picture of feeder livestock financing as of 1950 in Ohio. It must be remembered that these agencies had loans greatly in excess of the above amount, but the analysis in this study was limited to the 301 loans.

PREFERENCES FOR DIFFERENT SOURCES OF CREDIT

Some livestock feeders preferred to obtain finance from banks, others preferred Production Credit Associations (PCA'S), Producers Credit Corporation, and a few from individual sources. Approximately 50 percent liked the service offered by the Commercial Banks. The other feeders were divided between Production Credit, Producers Credit Corporation, and other sources. About 10 percent had no preference, since many of them admitted they were uninformed on different credit agencies. There was a stronger preference for banks in

TABLE 3.—The Factors Influencing Feeder Farmers in Favor of One Source of Credit or the Other

Factors	Banks	Production Credit Associations and Producers	Others and uninformed
	%	%	%
Past business experience satisfactory	58.0	58.0	16.0
Convenience in making loans	30.0	18.0	11.0
Lower interest rate	7.0	22.0	11.0
Uninformed on credit and other reasons	5.0	2.0	62.0
Total farmers (number)	70	57	16

Wood and Miami Counties, whereas in Union and Auglaize Counties the preference was for Production Credit Associations and Producers Credit Corporation.

What were the factors that influenced livestock feeders in favor of one source of credit rather than the others? The answers are given below:

Satisfactory business experience over a period of time and convenience in making loans were the important reasons given by most feeder farmers. A lower interest rate was a factor given by P.C.A. and Producer borrowers. However, a few banks made favorable loans with low interest rates.

What were some of the satisfactory business experiences mentioned by livestock feeders in making loans with the banks? They were: known at the bank; did business there; less red tape; direct transaction of business; easier to get a loan; no mortgage required of some borrowers; some were stockholders.

The reasons indicated for borrowing through the P.C.A.'s and Producers Credit Corporation were: helped the farmer when he needed credit; made long term loans; will extend credit beyond maturity, pay off loan when livestock is sold, dependable credit, knowledge of financial needs of farming, both are farmer organizations, interested in farmers, and will make larger loans and keep interest rates low.

Feeders prefer to borrow from banks because they are nearby. Many have their checking accounts with the banks and probably have less trouble making a loan. As will be shown later, many banks make unsecured loans, and some do not require financial statements.

The Cooperative Credit Agencies (The P.C.A's and Producers) were favored by livestock feeders on a somewhat different basis. Many feeders mentioned that P.C.A.'s extended credit when farmers needed it, and these feeders preferred to deal with the P.C.A.'s since they were stockholders. Also, P.C.A.'s and Producers will make long term loans for cattle feeding, and will extend these loans when there is a need. Some feeders, too, felt that cooperative leaders knew and understood the financial needs and requirements of farmers better than some of the banks.

Leaving out the fact that a farmer may be a stockholder of a bank or a member of the Credit Cooperatives, the reasons for dealing with the banks or other agencies was based largely on satisfactory service and convenience. Experience is an important factor. An unsatisfactory loan will cause a shift to another credit agency. On the other hand, if a loan is made that is satisfactory, the chances are that a borrower will continue to hold a favorable attitude toward such credit institution. Some of the smaller banks are definitely handicapped in dealing with the farmers who need larger loans, because they cannot make large loans due to their small capitalization. The Cooperative Credit Agencies can and do handle these larger loans, and thus give the livestock feeder the service he demands.

UNSATISFACTORY SOURCES OF CREDIT

Slightly more than 60 percent of the feeders who were interviewed stated that none of the agencies advancing credit were unsatisfactory. This would seem to the writers to mean that the credit institutions were doing a reasonably good job of advancing livestock credit. There was some dissatisfaction present, however.

The chief reasons given for dissatisfaction with the banks were: interest rates were too high, banks were unable to finance large loans, don't understand farmers needs, some banks don't want to make feeder loans, some want too much security, and some don't like to renew notes. These reasons were advanced largely as the result of unsatisfactory experiences with individual banks.

The reasons for dissatisfaction of the P.C.A.'s credit facilities were: too many requirements, must purchase membership stock, and must give too much security in some situations. Similarly, for the Producers Credit Corporation the reasons advanced were: must buy from and sell to the Cooperative; don't like to give a mortgage and too far away.

Thus, one can conclude that while a credit agency may be unsatisfactory in some regard to a few individuals, it is always very difficult to satisfy all.

IMPORTANCE OF FEEDER LIVESTOCK LOANS

Banks were handling a sizable volume of feeder loans in the four counties. Of 52 banks studied it was estimated that they handled nearly $2,000,000 worth of feeder loans during 1950. These loans were not confined only to the four counties as many banks served parts of other counties in addition to the four studied. The feeder loans averaged slightly over $38,000 per bank.

The P.C.A.'s and Producers Credit Corporation combined, handled approximately $600,000 in the four counties studied. No information was available on other sources, although there was some credit outstanding. Some of the agencies selling feeder livestock financed feeders and a few individuals furnished credit. It was also true that during 1950 many feeders needed no financial credit.

These four areas (somewhat larger than four counties) used approximately $2,500,000 in feeder loans during the year 1950. Feeder loans averaged about 4 percent of the total dollar volume of all loans at the banks, and about 11 percent of the agricultural loans made by banks. While most of these banks were in rural areas, only about 40 percent of total loans were agricultural loans. The banks were of all sizes, but most of them were not large. Total loans (including feeder, agricultural and other) varied from $130,000 for the smallest bank to nearly $5,000,000 for the largest bank in the four areas. The average volume of loans per bank was about $950,000.

Some banks were more interested in agricultural loans than others, since 20 percent of the banks had over 70 percent of their loans in agricultural loans. On the other hand about 14 percent of the banks had less than 20 percent agricultural loans of their total dollar volume.

Feeder livestock loans amounted to over $200,000 for 8 percent of the banks, whereas, 80 percent of the banks had feeder loans totaling under $50,000. The feeder loans averaged about $38,000 per bank.

This shows that while most banks had feeder livestock loans many of them had a small volume. Only a few seemed to make a special effort to get a large volume of feeder livestock loans. These were located in Wood and Miami Counties.

PURPOSE OF FEEDER LIVESTOCK LOANS

With many of the loans examined, it was not possible to identify accurately the purposes of the loan and allocate the amount for that purpose. Where, for example, cattle or feeder lambs alone were purchased, it was easy, but many loans were associated with purchasing feeder livestock and other farm operations as shown in Table 4.

Nearly 60 percent of the number of loans were identified as for livestock only, while the remaining 40 percent were for livestock and various other farm operations. The dollar volume of the loans was almost equally divided between straight livestock loans (53 percent), and other combinations of livestock loans (47 percent).

Feeder pig loans on the average were the smallest ($1300 per loan), while cattle, sheep and lambs loans were largest of the straight livestock loans (cattle $4,215, sheep and lambs $3,248). There were a greater number of cattle loans made, and they accounted for a larger total dollar volume (43 percent) than any other single straight loans. Another large group (46 percent of dollar volume) was for the purchasing of livestock, paying debts and operating expenses, or feed and operating expenses.

SIZE OF FEEDER LOANS

The demand for feeder loans as represented by four Ohio counties (Wood, Auglaize, Miami and Union) extended from loans of less than $500 in size to more than $30,000, Table 5. More than 25 percent of

TABLE 4.—Feeder Livestock Loans Made According to Purpose for 70 Bank Loans, 107 P.C.A. and 124 Producers Loans in Four Selected Counties in Ohio

Purpose	Average amount	Percentage of Total Loans	
		Number	Volume
		%	%
Purchasing cattle	$4,215	42.2	44.7
Purchasing ewes and lambs	3,248	5.0	4.0
Purchasing feeder pigs	1,301	7.0	2.3
Purchasing livestock (a)	1,470	4.0	1.5
Livestock, seed, feed, farm equipment and operating expenses	3,633	27.6	25.2
Livestock, operating expenses pay debts	6,544	12.9	21.3
No purpose indicated	2,862	1.3	1.0
All loans	$3,978	301	$1,197,252

(a) Kind of livestock was not mentioned on application of loan.

the loans were under $1,000, but they represented less than 4 percent of the total dollar volume. Nearly one-third of the loans were between $1,000 and $3,000, representing 15 percent of the dollar volume. On the other hand, less than 9 percent of the loans were over $10,000, but this represented 37 percent of the dollar volume.

In analyzing these loans one observes there is a rather equal demand for all size loans in terms of dollar volume from the very small to the few large loans, except for the $10,000 to $15,000 group. The loans under $5,000 amounted to 35 percent of the total dollar volume, from $5,000 to $10,000, about 27 percent; from $10,000 to $15,000, 12 percent; and over $15,000, 25 percent.

These loans, which included those held by banks, Production Credit Associations and the Producers Credit Corporation, should give a reasonably good representation of the farmers demand for loans according to size in purchasing feeder livestock at the time of the study with prices as they were during the last half of 1950. They show that credit agencies must be ready to furnish credit to livestock feeders from small to very large loans. Some of the small credit institutions are handicapped by the fact that they cannot make large loans, but due to the fact that in most communities livestock feeders are served by several credit agencies this does not prove to be a serious handicap at the present time.

TABLE 5.—Size of Feeder Livestock Loans Made for 70 Bank Loans, 107 P.C.A. and 124 Producers Loans

Size of loan	Number	Amount	Average amount	Percentage of total loans		Cumulative percentage	
				Number	Volume	Number	Volume
Under $500	34	12,057.00	354.62	11.3	1.0	11.3	1.0
$ 500— 999	43	33,446.00	777.82	14.3	2.8	25.6	3.8
$ 1,000— 1,999	61	88,123.00	1,444.63	20.3	7.4	45.9	11.2
$ 2,000— 2,999	38	94,177.00	2,478.35	12.6	7.9	58.5	19.1
$ 3,000— 3,999	31	102,707.50	3,313.15	10.3	8.6	68.8	27.7
$ 4,000— 4,999	20	89,196.00	4,459.78	6.6	7.5	75.4	35.2
$ 5,000— 5,999	21	112,615.50	5,362.64	7.0	9.4	82.4	44.6
$ 6,000— 6,999	7	45,893.00	6,556.18	2.3	3.8	84.7	48.4
$ 7,000— 7,999	9	66,514.00	9,502.04	3.0	5.6	87.7	54.0
$ 8,000— 8,999	6	49,087.00	8,181.11	2.0	4.1	89.7	58.1
$ 9,000— 9,999	6	57,081.00	9,513.52	2.0	4.8	91.7	62.9
$10,000—14,999	12	142,144.00	11,845.30	4.0	11.8	95.7	74.7
$15,000—19,999	4	64,636.00	16,158.99	1.3	5.4	97.0	80.1
$20,000—29,999	6	131,324.00	21,887.41	2.0	10.9	99.0	91.0
$30,000 and over	3	108,251.00	36,083.60	1.0	9.0	100.0	100.0
Total	301	1,197,252.00	3,977.58	100.0	100.0	——	——

Approximately 30 percent of the loans in this study amounting to 25 percent of the dollar volume were unsecured as shown in Table 6. This means that the credit of the borrower was on such a sound level in the opinion of the lender that the lending institution did not demand any security, except the signature of the borrower on the note for the amount involved. Banks held 62 percent of the dollar volume of this type of credit. This type of credit was very desirable to all lending agencies and was preferred by the borrowers themselves. It provides for a flexibility of credit, and credit reaches a very high standard between the loaning agency and the borrower. Very seldom are losses involved, and loans are paid at maturity.

Most of the other loans were secured by livestock alone, or by livestock and feed, or farm equipment. These loans were secured by means of a chattel mortgage. Of the total loans, livestock alone accounted for 35 percent of the dollar volume, but over 40 percent of the number of loans. Other combinations of livestock, with feed and machinery accounted for the balance.

The security involved in loans secured by chattel mortgages must be handled with understanding or the borrower sometimes is put in a difficult operating position. This occurs in those cases when necessary to dispose of part of the livestock or property given for security. Misunderstanding sometimes contributes to the difficulty. It is very desirable that the borrower have a clear understanding of the responsibilities involved when property is given as security under chattel mortgages. In some situations the officers of lending agencies have assumed borrowers understood clearly, when later it was discovered the borrower

TABLE 6.—Feeder Livestock Loans Grouped According to Security Offered for 70 Bank Loans, 107 P.C.A. and 124 Producer Loans

Security	Average amount	Percentage of Total Loans	
		Number	Volume
		%	%
Livestock	$2,318	42.9	35.1
Unsecured	4,567	30.6	25.0
Livestock, feed and farm equipment	6,588	16.6	27.5
Livestock, feed	5,872	7.6	11.8
Livestock, farm equipment and other security	1,948	2.3	1.1
All loans	$3,978	301	$1,197,252

was uninformed of his responsibility. Likewise, it is important that the credit agency, especially the officers who work out the mechanics of the loan with the borrower, have a clear understanding of the needs and how a farmer must operate his livestock feeding operations on his farm. If a loan desirable to both parties cannot be worked out, it may be better not to grant the loan. From the comments of the farmers many of the credit institutions, including some of the banks and especially the P.C.A.'s, have approached a desirable understanding and working relationship between the borrower and the loaning agency. This is approaching what the livestock borrowers desire from credit agencies.

RATES OF INTEREST CHARGED ON FEEDER LOANS

Farmers feeding livestock who were interviewed in this study stated interest rates on feeder livestock loans varied from under 4 percent up to 6 percent, Table 7. The widest range of rates were found with the banks. A few loans were made under 4 percent in exceptional cases. Quite a few loans were made at 4 percent, and at varying rates up to and including 6 percent. Banks seemed to have a varying policy depending upon local situations. The most common rate was 5 percent in all counties with the exception of Union, where the 6 percent rate was indicated by as many banks as charged 5 percent. Some farmers feeding livestock were charged 6 percent by banks in all four counties. This means that rates varied considerably in the four counties depending upon the nature, character, and soundness of the individual loans.

Farmers were not too well informed on the rates charged by the Production Credit Association, at the time of the study, November 1950. The P.C.A.'s were charging 5 percent in Wood and Union

TABLE 7.—The Rate of Interest Charged on Livestock Loans as Reported by 143 Farmers in Four Ohio Counties

Interest rate	Banks	P.C.A.	Producers	Others	Total
Under 4%	1	—	—	—	1
4	13	1	6	2	22
4½	4	7	1	1	13
5	39	24	7	7	77
5½	1	3	—	—	4
6	3	2	—	—	5
3—6	1	—	—	—	1
4—5	3	1	—	3	7
5—6	1	1	—	—	2
Don't know	5	—	2	4	11
Total number	71	39	16	17	143

Counties, and 5.5 percent in Miami and Auglaize Counties. Only one-fourth of the farmers knew the correct rate in the latter two counties. On the other hand, most of the farmers giving information on P.C.A.'s knew the correct rate in Wood and Union Counties.

Likewise, the farmers were not correctly informed on the rate charged by the Producers Credit Corporation, which was 5 percent. Some of this misinformation no doubt was due to the fact that interest rates have moved up in the last year from the low rates of previous years.

When the banks themselves were interviewed, they substantiated the rates indicated, except that the range was wider than indicated by the farmers. One bank was loaning on feeder financing as low as 3 percent. The credit conditions were very favorable between the lender and borrower, hence, the very low rate. On the other hand, another bank was charging 7 percent.

Of the banks interviewed, 20 percent stated their lowest rate was 4 percent, while 60 percent indicated their lowest rate was 5 percent, and the balance at higher rates. Sixty percent of the banks declared 6 percent was the highest rate charged, and 35 percent stated 5 percent was the highest rate charged. The remainder charged more than 6 percent.

All banks were not uniform in their rates charged to their own customers. They varied according to their own policies. The most common rate charged was 5 percent, then 6 percent, with a few charging 5.5 percent, and a few more 4 percent.

PROCEDURE IN MAKING FEEDER LOANS

Outside of signing the note by the borrower, procedure varied considerably in making loans. Even in signing the note, 40 percent of the farmers interviewed indicated that they had to have their wife co-sign with them. Eighty percent of them stated they had to fill out a financial statement. Some banks did not require financial statements when a borrower was well known and had a substantial net worth, but all Production Credit Associations and the Producers Credit Corporation required a financial statement when making the loan.

Over 50 percent of the farmers interviewed stated they had to fill out an application. Many farmers don't like this step. They considered it so much "red tape." The banks varied in procedure in this regard and made adjustments to suit the individual case. Many farmers liked the idea of having a line of credit, regardless of the purpose. The P.C.A.'s and Producers Credit Corporation almost always required an application, as well as a financial statement. It was in this procedure where banks had a definite preference by farmers, over the P.C.A.'s and Producers Credit Corporation.

Of the farmers interviewed, over 60 percent stated that the signing of a chattel mortgage was required of them for a loan. The signing of a chattel mortgage has raised questions with some farmers that only a mortgage on the livestock should be taken or in addition, include the feed required to finish the livestock. Some have thought that credit agencies at times tend to "tie up" the borrower more than was needed for the security of the loan. Such procedure makes it difficult for the farmer to operate in many cases.

It is in connection with this situation that credit officers must have a clear understanding of farmer's needs. Some farmers indicated in such situations that they had to depend on the favorable action of local business men to carry them through critical periods. It would seem preferable in such instances for credit agencies to refuse credit to an individual rather than to "tie up" the farmer so that it makes it almost impossible for him to operate. Credit agencies have a greater responsibility than just the security of the loan.

These were the common procedures in making feeder loans to farmers. There were some additional requirements noted in a few cases. Several young men starting out were required to secure the signatures of their fathers as additional security. In some cases land owners signed notes with their tenants.

At the present time a number of farmers do not need credit, but do their own financing. A very large group are in such strong financial condition that they can easily borrow much more than they need. There are no credit problems with this group. The problems in procedure arise with the farmers that do not have sufficient financial resources. In order to protect themselves credit agencies use the chattel mortgage, and it must be said some use it unwisely, and then had situations arise that become unsatisfactory to both the credit agencies and the farmers themselves.

NET WORTH DEBT RATIO OF LIVESTOCK LOANS

One aspect of the security behind loans is the net worth debt ratio. An example will help to understand the determination of this ratio. Suppose a farmer had a farm, equipment, livestock, grain, feed, etc., which at market value would give him total assets of $50,000 on the financial statement given to the credit agency. Also, suppose at the time he applied for a loan, he had a mortgage on his farm of $7,000, had $2,500 unpaid on machinery, and $500 in accounts at farm elevators and farm supply stores. Thus, his debts amounted to $10,000. Subtracting his debts of $10,000 from what he owns or total assets of $50,000, you have $40,000 or his net worth. Therefore, his net worth of $40,000 was four times his debts of $10,000. He net worth debt ratio was, therefore, 4 to 1. Now if this farmers assets had been less, let us say only $20,000, his net worth would have been only $10,000, exactly the same as his debts. That would mean a net worth debt ratio of 1 to 1.

Table 8 shows the net worth debt ratio of a selected sample of feeder livestock loans amounting to about $1,200,000 made by banks, Production Credit Associations in four Ohio counties, and the Producers Credit Corporation. Nearly 3 percent by volume of this group of loans had a net worth debt ratio of less than 1 to 1. It was true that the volume was small, but this shows that the credit agencies were reaching down and making loans to livestock men with very little additional security other than the livestock they were purchasing. Banks, P.C.A.'s and the Producers Credit Corporation all had loans in this category.

Table 8 indicates that 10 percent of the dollar volume was in the next group with a net worth debt ratio under 2 to 1, but over 1 to 1. This table shows a considerable number and volume of loans from low to high net worth debt ratio. However, 45 percent of the dollar volume was under a 5 to 1 ratio, while over 55 percent were 5 to 1 ratio or higher. In fact, nearly 14 percent of the dollar volume was from borrowers that had no debts before making their feeder loans.

The size of the loan on the average was not much different for the low or the high net worth debt ratio loans. The loans were slightly

TABLE 8.—Feeder Livestock Loans Made by Banks, Production Credit Associations and the Producers Credit Corporation in Four Ohio Counties According to the Net Worth Debt Ratio

Net worth debt ratio	Loans		Percentage of total volume	Average size of loan
	Number	Amount		
			%	
Under 1 to 1	11	$ 33,017	2.7	$3,002
1 to 1— 1.99 to 1	28	127,589	10.7	4,557
2 to 1— 2.99 to 1	48	192,715	16.1	4,015
3 to 1— 3.99 to 1	39	120,727	10.1	3,096
4 to 1— 4.99 to 1	13	61,751	5.2	4,750
5 to 1— 9.99 to 1	58	254,594	21.3	4,390
10 to 1—14.99 to 1	21	79,309	6.6	3,777
15 to 1 and over	34	164,158	13.7	4,828
No debts	49	163,392	13.6	3,335
Total	301	$1,197,252	100.0	$3,978

larger on the average in the group with high net worth debt ratios before applying for the loan.

Over 70 percent of the loans have a net worth debt ratio of 3 to 1 or better. This means that this group of loans were well secured as far as net worth was concerned. Only 30 percent of the total were in the lower class as far as net worth debt ratio was concerned. These loans, while they may not have as much security behind them as the other group, are well protected when secured by livestock. Livestock in most instances are putting on weight and improving their value per head as they are fed. Therefore, they usually become more valuable. This, of course, is not the case if prices are falling rapidly or if the livestock should die from disease. It is for these latter reasons that loaning institutions are somewhat cautious at times in making loans.

NET WORTH DEBT RATIO COMPARED TO NET WORTH OF LIVESTOCK LOANS

When these livestock loans were further analyzed on the basis of their net worth and their net worth debt ratio, there was a tendency for the loans to be generally smaller with the lower net worth debt ratio. That is, if one takes the borrowers who had a net worth of less than $10,000, such borrowers who had a net worth debt ratio of 2 to 1 or less were able to borrow less than those that had a 5 to 1 ratio or better. In working with this data it must be remembered that all borrowers were not asking for maximum loans, hence, the average loan granted does not indicate the maximum loan that would be granted. This principle seemed to hold only for the loans to borrowers with net worth under $20,000, Table 9.

Borrowers with a net worth of between $20,000 to $40,000, but with a net worth debt ratio of less than 2 to 1 actually had larger loans than those borrowers with the same net worth, but who had a net worth debt ratio of over 2 to 1. This latter group probably did not ask or want large loans. Had they asked for larger loans they no doubt would have been granted larger loans than those individuals who had a net worth debt ratio of less than 2 to 1.

If the net worth debt ratio remained the same, then the average size of loan increased as the net worth increased. That is, if one takes the loans that fell in the 2 to 1 ratio or less, or the 2 to 1 to 5 to 1, or over that ratio, it was found that for each group the size of the loan increased as the net worth increased. This is very much as would be expected.

Undoubtedly, there are many farmers who from past experiences do not borrow or even want to borrow up to their maximum. Hence, they have very good net worth and net worth debt ratios, but because of their conservativeness, will not borrow near the maximum amount that credit agencies would be willing to lend them. Such farmers will not extend themselves. However, there are farmers who are considered plungers. If they believe a certain operation is profitable to them, they will plunge in just as far as any credit agency will carry them. Naturally, they will fall in the low net worth debt ratio group. It seems reasonable, therefore, to assume that the loans more nearly reach the maximum upper limit of loaning ability in the low net worth debt ratio groups (under 2 to 1) than in the higher groups.

TABLE 9.—Livestock Loans Grouped According to Net Worth and the Net Debt Ratio for 70 Bank Loans, 107 P.C.A. and 124 Producers Loans

Net worth	Net Worth Debt Ratio			
	Under 2 to 1	2 to 1— 9.99 to 1	5 to 1 and over	Total
Under 10,000				
No. of loans	14	15	24	53
Average loan	1,896.76	1,686.94	1,740.43	1,766.59
Largest loan	8,060.37	4,876.35	9,701.12	9,701.12
10,000 to 19,999				
No. of loans	19	31	37	87
Average loan	3,561.87	1,909.65	2,888.03	2,686.58
Largest loan	12,705.05	7,014.37	11,913.39	12,705.05
20,000 to 39,999				
No. of loans	4	27	57	88
Average loan	7,082.49	3,154.31	2,705.99	3,042.48
Largest loan	22,002.55	11,737.00	15,000.00	22,002.55
40,000 to 59,999				
No. of loans	1	20	21	42
Average loan	7,424.13	8,446.56	5,516.29	6,957.08
Largest loan	7,424.13	44,628.99	15,790.90	44,628.99
60,000 and over				
No. of loans	1	7	23	31
Average loan	30,621.66	5,227.32	10,554.00	9,998.55
Largest loan	30,621.66	8,056.31	33,000.00	33,000.00
Total				
No. of loans	39	100	162	301
Average loan	4,118.10	3,751.92	4,083.05	3,977.58
Largest loan	30,621.66	44,628.99	33,000.00	44,628.99

DO FEEDERS CHANGE SOURCES OF CREDIT?

Of the 143 livestock feeders interviewed, almost all of them (over 90 percent) indicated that they do not change sources for credit financing. The reasons stated for this were: since they were satisfied with a source they stayed with it until there was some reason to change. Many of them had established their credit, obtained all the money they needed, were well treated, and consequently did not change. Only when treatment, or service, or interest rates get out of line did they change. Therefore, credit institutions are likely to continue to hold their customers in so far as livestock feeding credit is concerned. However, there was some complaint that interest rates were too high. As was pointed out previously this was true with some banks. Differences in interest rates will force feeders to change credit sources, but otherwise if the service and treatment is satisfactory there is very little shifting. Unwillingness to make longer loans or to renew loans when feeders wanted to hold their livestock a few weeks longer with the expectation of a better market was mentioned by a few farmers for shifting to another credit agency.

DESIRABLE RULES FOR CREDIT AGENCIES TO FOLLOW IN EXTENDING CREDIT TO FARMERS AS SUGGESTED BY FARMERS THEMSELVES

Farmers have their own notions and ideas on rules or factors credit agencies should use in extending or refusing credit on livestock feeding operations. It differs with individuals and is difficult to summarize in an overall statement. Approximately 80 percent of the farmers agreed that the credit agency must have accurate knowledge of the financial condition of the borrower, and that a financial statement should be furnished when seeking the loan. The balance believed that no financial statement was needed because the credit agency should know the background and reputation of the individual borrower. Many farmers suggested that the local banks could obtain such information easier than some of the other agencies extending credit.

The idea behind the financial statement should be based on the ability of the borrower to repay. It takes understanding and knowledge of the individual by the credit agency. A younger man who has demonstrated his ability as a feeder and with a fair financial statement may be able to repay easier than an older man who has a better financial statement, but does not enjoy good health or has other personal limitations.

Another rule that approximately 30 percent of the farmers thought was important was to consider the soundness of the feeding program of the individual farmer and whether the farmer was a good feeder. This information of course, cannot be obtained either through an application or financial statement. It can only come through a period of time, including the history of the individual's experience. Many of the feeder farmers emphasized this factor as of major importance.

In connection with the signing of the note some farmers felt that the note should be signed by the individual borrower only. This was the situation again where past experience demonstrated that the borrower had met his obligations and paid his loan on time. There were, however, about as many farmers who did not object to getting someone else to sign the note.

There was a large group, approximately half of the farmers, who thought credit agencies should use the chattel mortgage, as it was one of the best ways to assure good credit for livestock feeders who did not have the necessary financial backing. It was interesting to note the favorable attitude of many farmers with respect to the chattel mortgage. Some farmers thought the chattel mortgage was not needed when a farmer had a good financial statement. Of course, this is recognized today by all the agencies extending livestock credit, since many of the better loans in this study were made on an unsecured basis. The dissatisfaction over the chattel mortgage has been explained in another section, and has its limitations depending on the manner of its use.

Other good suggestions in extending credit were as follows: don't be too lenient, that is, don't lend too much; be reasonable in the extension of loans (especially if the farmer wants to feed longer to try for a more desirable market); remember that some farmers have other debts and must meet those obligations; the farmer should pay off his loan when he sells livestock (even though he may have to borrow again the following week); and a mutual understanding of each others problems.

EVALUATION OF FEEDER LIVESTOCK LOANS

Loans for feeding livestock were desired by nearly all lending institutions in this study. The four Production Credit Associations and the Producers Credit Corporation of Columbus considered livestock loans as the best, except where the financial condition of the borrower was not satisfactory. The Producers Credit Corporation, of course, specialized in livestock loans, and an analysis of a sample of 124 of their loans showed that over 75 percent of the dollar volume was advanced for purchase of livestock (almost all feeders), or livestock, feed, and closely related expenses.

The P.C.A.'s on the other hand had relatively few pure livestock feeding loans. In many instances credit for other operations were advanced to the borrower besides just the purchase of livestock. However, the P.C.A.'s were very favorable to financing loans for the purchase of feeder livestock.

Of the 52 banks interviewed better than 75 percent of them considered feeder livestock loans as very satisfactory and desirable. Such remarks as follows were made by the bank officers interviewed: feeder livestock loans are good loans, no money lost on livestock loans, loans are paid at maturity, you deal with farmers with a large net worth, and the more desirable farmers. On the other hand, approximately 5 percent of the bankers considered feeder livestock loans no better than other loans. They considered all loans alike, and looked at the security and character of the borrower as more important.

Approximately 15 percent of the bankers considered feeder livestock loans undesirable or risky or not as good as other loans. According to the officers interviewed, their banks had experienced some unsatisfactory loans and undesirable situations in the past. Therefore, they were not interested in feeder loans. A few banks turned them down entirely.

Thus, one can conclude that as far as the lending agencies in the four counties studied (Wood, Auglaize, Miami, and Union), feeder livestock loans were desired by a very large percentage of the credit agencies. They were anxious to obtain such loans and considered them among the best. One reason for this was that in many cases the farmers wanting feeder livestock loans were the desirable farmers, the good farmers, and the farmers with a very satisfactory net worth. Probably any kind of loan to this desirable group of farmers was considered desirable to the lending agency.

In conclusion one can say livestock farmers are very well served at the present time by the credit agencies. Most of the banks are willing to loan, although some have their rates of interest upped a little too high. Where a livestock farmer does not want to pay the higher interest rate, he can turn to the Production Credit Association or the Producers Livestock Credit Corporation. In the case of the P.C.A.'s, those serving Wood and Union Counties were charging 5 percent, while those serving Miami and Auglaize were charging 5.5 percent at the time of the study. Borrowers, however, through Production Credit Associations, are required to take out 5 percent of their loan in stock, and thus become members of the credit agency. This is not liked by some farmers, but on the other hand they become stockholders in their own credit institution.

The Producers Livestock Credit Corporation of Columbus was charging 5 percent and does not require any purchase of stock, although one must buy his feeders from the Producers Livestock Cooperative, and one is expected to market his finished livestock through them. Some farmers don't like this requirement.

Therefore, there seems to be some limitations to all three sources of credit (Bank, P.C.A.'s and Producers) in some areas and to some farmers. There are a few who have used individual sources of credit, and a few have borrowed through private agencies furnishing feeder livestock. Apparently a small percentage of farmers use these latter two sources.

For those farmers who have developed a good livestock credit reputation and standing, it would seem that their credit needs are very well served at the present time. Most of these farmers are given a line of credit with an upper limit. They are permitted to buy their feeder livestock where they desire. Some are given livestock drafts which permit the farmer to buy in any feeder market. The draft is sent through regular banking channels by the feeder selling agency. The credit institution honors the draft and makes out the necessary loan papers with the farmer purchaser. This is about as flexible as any one would want. In fact, many feeder selling agencies desire such drafts over personal checks. In the latter case they have to investigate by telephone or telegram the financial responsibility of each purchaser. They do not doubt the drafts, because they know the credit agency has investigated the financial condition of the purchaser.

There is no substitute for honesty and good character in feeder livestock financing. It was observed that some credit institutions would "go the limit" in extending credit to the farmer where they were convinced he was a good credit risk. Sizable loans were made to farmers with net worth under $10,000 and with a net worth debt ratio of around 1 to 1.

It must be remembered that credit institutions advancing credit to livestock feeders have to be alert to the risks involved when the price level is changing. When prices are reasonably stable or rising, credit risks are not as great as when prices are falling or likely to fall. Livestock farmers must keep these general conditions in mind. The livestock feeder may get himself involved financially if he feeds six months or longer with falling prices, and if he does not have sufficient financial reserves. In such a period, officers of credit institutions cannot be as liberal in their lending policies as in periods of stable prices.

In conclusion, one can say then that livestock feeders on the whole are enjoying good credit service in Ohio, based largely on their past credit experience and reputation for meeting their obligations on time. A livestock feeder should always be alert to guard his credit reputation.

SUMMARY

With high prices livestock feeding is demanding more financing. This study was designed primarily to appraise the characteristics and limitations of feeder livestock financing, to evaluate the institutions furnishing finance, and to determine the adequacy of finance available to farmers needing such service.

The credit facilities in four Ohio counties (Wood, Auglaize, Miami, and Union) were examined. These counties were considered typical of Ohio feeding from the standpoint of importance of feeding, location, size of operation, and differences of financing.

143 livestock feeders, representing all sized feeding operations were interviewed. These livestock feeders indicated that their credit was furnished by commercial banks, Production Credit Associations, Producers Credit Corporation, friends, agencies selling feeder livestock, and other individuals. In addition to the livestock feeders interviewed, 52 banks serving the selected counties were contacted and detailed information was obtained on a few representative feeder loans. A sample of the loans of the Production Credit Associations and the Producers Credit Corporation resulted in 301 feeder loans amounting to slightly over $1,238,000.

Approximately 50 percent of the livestock feeders favored the services offered by commercial banks, other feeders were divided between Production Credit, Producers Credit Corporation, and other sources.

Satisfactory business experience over a period of time and convenience in making loans were the important reasons given by most feeder farmers in favor of one source of credit or the other.

Slightly more than 60 percent of the livestock feeders interviewed, stated that none of the agencies advancing credit were unsatisfactory. This would seem that the credit institutions were doing a reasonably good job of advancing livestock credit. Some dissatisfactions advanced were: high interest rates, too much security, and too much red tape.

Feeder livestock loans amounted to approximately 2.5 million dollars in these four selected areas during 1950. Feeder loans averaged about 4 percent of the total dollar volume of all loans at the banks, and about 11 percent of the agricultural loans made by banks. While most of these banks were in rural areas, only about 40 percent of the total loans were agricultural loans.

Nearly 60 percent of the number of loans were identified as for livestock only, while the remaining 40 percent were for livestock and various other farm operations. Cattle loans accounted for 43 percent of the total dollar volume for single straight loans.

The size of feeder loans in these four areas extended from less than \$500 in size to more than \$30,000. More than 25 percent of the loans were under \$1000, but they represented less than 4 percent of the total dollar volume. Less than 9 percent of the loans were over \$10,000, but this represented 37 percent of the dollar volume. Loans under \$5000 amounted to 35 percent of the total dollar volume.

Approximately 30 percent of the loans amounting to 25 percent of the dollar volume were unsecured loans. Most of the other loans were secured by livestock alone, or by livestock and feed, or farm equipment in the form of chattel mortgages.

Interest rates as revealed by the credit agencies on feeder livestock loans varied from 3 percent up to 7 percent. The most common rate of interest was at the 5 percent level.

The Production Credit Associations, the Producers Credit Corporation, and most of the banks required financial statements when making a loan. Some banks did not require a financial statement when a borrower was well known and had a substantial net worth.

Over 70 percent of the loans had a net worth debt ratio of 3 to 1 or better, indicating these loans were well secured as far as net worth was concerned. There was a tendency for the loans to be smaller generally with a lower net worth debt ratio.

Over 90 percent of the farmers interviewed indicated that they do not often change sources for credit financing because since they were satisfied with a source they stayed with that institution until there was some reason to change.

Livestock farmers were very well served by the existing credit agencies, and feeder livestock loans were desired by a very large percentage of the credit institutions in these areas.